

## Message Text

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PAGE 01 MANILA 05649 01 OF 05 151557Z  
ACTION EA-09

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C O N F I D E N T I A L SECTION 1 OF 5 MANILA 5649

STADIS//////////

FOR EA ONLY - EA/EP

E O 11652: GDS  
TAGS: ECON, PFOR, AMGT, RP  
SUBJ: EAST ASIA ECONOMIC POLICY REVIEW: PHILIPPINES

REF: STATE 73295

1. SUMMARY. THE MOST SIGNIFICANT ECONOMIC POLICY ISSUE WE FACE IN THE PHILIPPINES AT THE PRESENT TIME RELATES TO THE POST LAUREL-LANGLEY ECONOMIC TREATY NEGOTIATIONS. THE TALKS APPEAR TO BE ON DEAD CENTER, AND WE RECOMMEND A FRESH LOOK AT OUR OPTIONS. ARE WE PREPARED TO OFFER TARIFF CONCESSIONS AND GSP WAIVERS; IF SO, AND IF THE GOP SIGNALS READINESS TO COME NEARER OUR POSITION ON INVESTMENT, LET'S GET ON WITH IT. IF NOT, WE SHOULD CONSIDER MOVING THE TARIFF QUESTIONS TO THE MTN.

2. OTHER ISSUES: (A) PRESENT LEVELS OF BILATERAL AND IFI ASSISTANCE ARE SATISFACTORY, BUT WE NOTE THAT WE IN THE FIELD MAY BE OUT OF STEP WITH SENTIMENTS RECENTLY EXPRESSED IN CONGRESS TO MORE CLOSELY MONITOR IFI PROJECTS. (B) THE RP IS TERRIBLY CONCERNED TO STABILIZE EXPORT EARNINGS, BUT ONLY MILDLY ATTRACTED TO THE COMMON FUND; WE SEE A REAL POSSIBILITY TO ATTRACT PHILIPPINE SUPPORT IF WE CAN

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PAGE 02 MANILA 05649 01 OF 05 151557Z

GET IN FRONT OF THIS ISSUE WITH FORTHCOMING PROPOSALS. ADDITIONALLY, ON THE SUBJECT OF EXPORT EARNINGS, WE RECOMMEND RESISTANCE TO SUGAR QUOTAS AND KEEPING THE U.S. MARKET OPEN FOR NON-TRADITIONAL RP EXPORTS. (C) THE RP IS DOING ALRIGHT IN EURODOLLAR BORROWING, AND APPEARS TO BE ON TOP OF DEBT SERVICE REQUIREMENTS, BUT FLOWS OF EQUITY CAPITAL HAVE BEEN SLUGGISH. STRONG

U.S. SUPPORT FOR A CODE OF CONDUCT FOR MNCS COULD HELP RESOLVE A CERTAIN RP AMBIVALENCE TOWARD MNCS AND FOREIGN INVESTMENT, AND OVER THE LONG TERM IMPROVE THE CLIMATE FOR DIRECT FOREIGN INVESTMENT. (D) WE SHOULD NOT EXPECT TOO MUCH OF ASEAN, BUT IT NOW SEEMS TO PROMISE A USEFUL FORUM, AND WE RECOMMEND HIGH-LEVEL ATTENTION ONCE THE GROUNDWORK IS LAID. (E) OUR PRESENT CIVIL AIR CONFRONTATION WITH THE GOP IS NEEDLESS, AND WE RECOMMEND A STRONGER ASSERTION BY THE DEPARTMENT OF THE FOREIGN RELATIONS ASPECTS IN FUTURE NEGOTIATIONS. END SUMMARY.

3. WE SEE OUR MAIN ECONOMIC CONCERNs RELATING TO THE RP FALLING IN SIX AREAS: (A) THE ISSUE OF OUR NEGOTIATIONS ON A SUCCESSOR TREATY TO THE LAUREL-LANGLEY AGREEMENT; (B) DEVELOPMENT ASSISTANCE LEVELS AND MODES; (C) THE SINGLE NORTH-SOUTH ISSUE OF GREATEST INTEREST TO THE RP, STABILIZATION OF EXPORT EARNINGS; (D) DIRECT INVESTMENT FLOWS, AND THE ROLE OF MULTINATIONAL CORPORATIONS; (E) THE U.S. POSTURE TOWARD ASEAN; AND (F) THE HIGHLY CONTENTIOUS AREA OF CIVIL AVIATION RELATIONS.

US/RP ECONOMIC NEGOTIATIONS

4. SINCE EXPIRATION OF THE LAUREL-LANGLEY AGREEMENT IN JULY 1974, THERE HAVE BEEN THREE NEGOTIATING SESSIONS ON A SUCCESSOR TREATY. THE RP SEEKS TARIFF CONCESSIONS IN THE U.S. MARKET FOR COMMODITIES WHICH THEY FEEL ARE DISCRIMINATED AGAINST -- COCONUT OIL AND PHILIPPINE

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PAGE 03 MANILA 05649 01 OF 05 151557Z

MAHOGANY -- AND A GENERAL WAIVER OF THE COMPETITIVE NEED REQUIREMENT UNDER THE GSP. THE U.S. SEEKS NON-DISCRIMINATION AGAINST U.S. FIRMS ONCE AN INVESTMENT HAS BEEN MADE; CHANGES IN CONDITIONS OF RESTRICTIONS MUST APPLY TO ALL FIRMS, INCLUDING DOMESTIC.

5. THE LATEST SESSION, IN MARCH 1976, DID NOT APPEAR TO BRING US CLOSER TO AGREEMENT, AND WE QUESTION WHETHER THERE IS SUFFICIENT PRESSURE TO PUSH THE TWO SIDES CLOSER TOGETHER. U.S. BUSINESSMEN IN THE RP HAVE BEEN OPERATING SUCCESSFULLY UNDER DE FACTO MFN STATUS WITHOUT A TRADE OR INVESTMENT TREATY, AND A NEW TREATY DOES NOT APPEAR TO BE VERY IMPORTANT TO THEM.

6. NEVERTHELESS, REPORTING FROM OTHER SOURCES INDICATES

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PAGE 01 MANILA 05649 02 OF 05 151558Z  
ACTION EA-09

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C O N F I D E N T I A L SECTION 2 OF 5 MANILA 5649

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THAT THE GOP IS CONSIDERING WAYS OF MOVING TOWARD MEETING OUR DESIDERATA ON INVESTMENT, SUGGESTING THAT THEY MAY ABANDON THE PRESENT ALPHONSE AND GASTON ACT AND INVITE US BACK TO THE NEGOTIATING TABLE. WE NEED THEREFORE TO PREPARE FOR THIS CONTINGENCY.

7. UNLESS WE ARE PREPARED TO CONSIDER GRANTING THE TARIFF CONCESSIONS AND GSP WAIVERS SOUGHT BY THE RP, WE SHOULD DISCOURAGE A REOPENING OF THE NEGOTIATIONS. IF, AS FROM THIS VANTAGE POINT APPEARS TO BE THE CASE, WE ARE NOT PREPARED TO GRANT MEANINGFUL GSP WAIVERS, THEN IT IS DOUBTFUL THAT TARIFF CONCESSIONS WOULD BE ENOUGH, IN THE RP CALCULUS, TO BALANCE AGAINST THE INVESTMENT GUARANTEES. INDEED, IT MAY BE PREFERABLE TO DEAL WITH THE TARIFF CONCESSIONS ON A STRICTLY TRADE BASIS IN THE TROPICAL PRODUCTS NEGOTIATIONS OR GENERAL MTN CONTEXT. THIS ALTERNATIVE SHOULD BE CAREFULLY EXAMINED IN THE COMING MONTHS.

8. TO SUMMARIZE, WE RECOMMEND A FRESH LOOK AT THE STATUS OF THE NEGOTIATIONS, WITH A VIEW TO RESPONDING TO AN RP INVITATION TO RESUME, OR TO SUGGESTING ALTERNATIVES TO FURTHER NEGOTIATIONS ON OUR OWN INITIATIVE. WE SHOULD DECIDE: (A) IF THE RP SIDE APPEARS WILLING TO MOVE IN OUR DIRECTION ON THE

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PAGE 02 MANILA 05649 02 OF 05 151558Z

INVESTMENT QUESTION, ARE WE PREPARED TO BE REASONABLY FORTHCOMING WITH RESPECT TO A GENERAL GSP WAIVER

(OR AN ATTRACTIVE CLUSTER OF INDIVIDUAL WAIVERS) AND TARIFF CONCESSIONS? (B) IF THE ANSWER TO (A) IS NEGATIVE, WE SHOLD SO SIGNAL THE RP SIDE, IN ORDER TO AVOID A POTENTIALLY UNPRODUCTIVE AND ACRIMONIOUS SESSION. (C) AS AN INDEPENDENT MATTER, DO WE PREFER TO DEAL WITH THE TARIFF MATTERS IN THE MTN? IF SO, SHOULD WE SUGGEST THIS AS AN ALTERNATIVE TO CONTINUED TREATY TALKS OR HOLD IT IN RESERVE TO PROPOSE UPON THE APPARENT FAILURE OF THE NEXT ROUND? (D) IF THE ANSWER TO (A) IS POSITIVE, DO WE WISH TO REGAIN THE INITIATIVE AND PROPOSE A RESUMPTION OF THE TALKS? THE ANSWER IS PROBABLY NO, UNTIL WE RECEIVE CLEAR INDICATIONS FROM THE GOP THAT INVESTMENT GUARANTEES MAY INDEED BE FORTHCOMING.

DEVELOPMENT ASSISTANCE

9. LEVELS OF U.S. DEVELOPMENT ASSISTANCE ARE NOT A SERIOUS ISSUE BETWEEN THE U.S. AND THE PHILIPPINES, PROBABLY BECAUSE THE RP HAS BEEN RECEIVING MORE THAN ITS SHARE OF BILATERAL ASSISTANCE AND IN RECENT YEARS HAS BEEN DOING QUITE WELL IN ATTRACTING DEVELOPMENT LOANS FROM THE MULTILATERAL INSTITUTIONS. NEVERTHELESS, ONE OF THE SEMINAL NORTH-SOUTH ISSUES IS THE MAGNITUDE OF NET RESOURCE TRANSFER, AND THE U.S. HAS NOT BEEN A SHINING LIGHT IN THIS AREA. PERHAPS BECAUSE ADB HEADQUARTERS ARE LOCATED IN MANILA, THE RELATIVELY LOW PERCENTAGE OF U.S. GNP WHICH IS DEVOTED TO ASSISTANCE RECEIVES MORE THAN USUAL ATTENTION. FURTHER FOOT-DRAGGING ON FUND REPLENISHMENT EXERCISES WILL HAVE COMMENSURATELY NEGATIVE EFFECTS ON THE U.S. IMAGE.

10. THE LEVEL OF BILATERAL AID TO THE RP IS, HOWEVER, ROUGHLY SATISFACTORY, PARTICULARLY IN VIEW OF INCREASED  
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PAGE 03 MANILA 05649 02 OF 05 151558Z

LEVELS OF FUNDING FROM THE IFIS, FOR WHICH THE GOP PROBABLY HAS SOME PREFERENCE. U.S. AID PERFORMS A VALUABLE ROLE IN SOME OF THE RISKIER AREAS OF ASSISTANCE AND IN POINTING WAYS FOR SUBSEQUENT IFI LENDING.

11. AS NOTED ABOVE, THE RP HAS BEEN QUITE SUCCESSFUL IN PREPARING BANKABLE PROJECTS FOR IFI FUNDING. OUR COORDINATION WITH THE IFIS IS ADEQUATE, BUT THERE IS AN ASYMMETRY WITH RESPECT TO ADB AND WORLD BANK PROJECTS, PERHAPS ACCENTUATED BY THE PRESENCE HERE OF ADB HEADQUARTERS. THE EMBASSY DOES HAVE AN OPPORTUNITY TO COMMENT ON ADB PROJECT BEFORE THEY ARE APPROVED, BUT THIS IS SELDOM THE CASE WITH IBRD PROJECTS.

IBRD LOAN DOCUMENTARIES INVARIABLY RECEIVED AFTER THE  
LOAN HAS BEEN APPROVED. IF THE CONGRESS SERIOUSLY  
PURSUED A DEMAND FOR GREATER ACCOUNTABILITY IN IFI  
PROJECTS, SOME MEANS WILL HAVE TO BE FOUND TO BRING  
U.S. MISSIONS MORE FULLY INTO THE PICTURE. IT SHOULD  
BE POINTED OUT THAT THE FURTHER THIS TREND IS

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PAGE 01 MANILA 05649 03 OF 05 151715Z  
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C O N F I D E N T I A L SECTION 3 OF 5 MANILA 5649

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IS PURSUED, THE LESS POPULAR IT WILL BE WITH BORROWING  
COUNTRIES, AS ONE OF THE ATTRACTIONS OF IFI LENDING IS  
THE RELATIVE ABSENCE OF ONEROUS STRINGS ATTACHED.

EXPORT EARNINGS STABILIZATION

12. AMONG ALL OF THE EXTANT NORTH-SOUTH ISSUES, THOSE  
THAT RELATE TO ENHANCE EXPORT EARNINGS COMMAND THE  
GREATEST ATTENTION IN THE PHILIPPINES. SUFFERING  
FROM A CHRONIC TRADE IMBALANCE, WHICH HAS GROWN  
ESPECIALLY LARGE IN THE PAST TWO YEARS BECAUSE OF CRUDE  
OIL PRICE INCREASES AND DECLINING SUGAR PRICES, AND  
DEPENDING ON A RATHER NARROW RANGE OF COMMODITY EXPORTS  
WHICH RESULTS IN UNSTABLE EXPORT EARNINGS, THE RP  
IS CASTING ABOUT FOR RELIEF. THIS DOES NOT  
MEAN THAT SUCH SCHEMES AS THE COMMON FUND ARE HOTLY  
ADVOCATED; ONLY THREE OF THE 18 COMMODITIES BEING DIS-  
CUSSED (SUGAR, ABACA, AND COPPER) ARE OF INTEREST  
TO THE RP. GOP POLICY-MAKERS NEVERTHELESS SEE SUCH  
PROPOSALS AS AN ATTEMPT TO DEAL WITH THE PROBLEM, ASIDE  
FROM THE POLITICAL PRUDENCE OF SUPPORTING SUCH POPULAR  
THIRD WORLD CAUSES. FROM THE PHILIPPINE PERSPECTIVE,  
NO MEANINGFUL ALTERNATIVES ARE OFFERED BY THE U.S. OR OTHER  
DCS, SO THEY ARE DRAWN WILLY-NILLY TOWARD CAUSES IN

WHICH THEY ONLY PARTIALLY BELIEVE.

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PAGE 02 MANILA 05649 03 OF 05 151715Z

13. TO THE EXTENT POSSIBLE, THEN, THE U.S. SHOULD STRIVE TO GET IN FRONT OF THESE ISSUES RATHER THAN CONTINUALLY REACTING RELUCTANTLY TO DEMANDS. COUNTRIES SUCH AS THE PHILIPPINES, WHICH RETAIN A PHILOSOPHICAL COMMITMENT TO THE MARKET SYSTEM AND WHICH BOAST POLICY-MAKERS WHO CAN DEAL WITH ECONOMIC ISSUES ON THEIR MERITS, CAN SERVE AS USEFUL ALLIES. THE INTERNATIONAL RESOURCES BANK EPISODE ILLUSTRATES THE TYPE OF INFLUENCE WHICH IS POSSIBLE. IN SPITE OF DOUBTS ABOUT THE ECONOMIC BENEFITS TO LDCS OF THE IRB, AND IN SPITE OF DEEP SUSPICIONS ABOUT U.S. MOTIVATIONS, THERE WAS IN THE GOP A MARKED DESIRE TO LEARN ABOUT THE PROPOSAL AND IF POSSIBLE SUPPORT IT. FILIPINOS WANT TO BELIEVE THAT WE ARE PREPARED TO HELP LDCS, AND THEY ARE INCLINED TO THINK THAT U.S.-ORIGINATED PROPOSALS WILL BE ECONOMICALLY SOUND. BUT THE MORE WE CONTINUE TO BE CAST IN THE ROLE OF NAYSAYER, THE MORE THIS POSITIVE INCLINATION FADES.

14. WE WOULD RECOMMEND OTHER POLICY DIRECTIONS IN THIS GENERAL AREA. THE U.S. IS AN IMPORTANT MARKET FOR EXPANDING "NON-TRADITIONAL" EXPORTS, E.G., GARMENTS, HANDICRAFT PRODUCTS, ELECTRONIC PARTS, WHICH OFFER A GOOD PROSPECT FOR STABILIZATION AND FUNDAMENTAL IMPROVEMENT OF THE TRADE BALANCE. THE USG SHOULD RESIST DOMESTIC PRESSURES TO ERECT BARRIERS AGAINST IMPORT OF THOSE ITEMS. WE NOTE RECENT ENCOURAGING EVIDENCE FROM WASHINGTON THAT THESE PRESSURES ARE IN FACT BEING RESISTED.

15. WITH REGARD TO SUGAR, WE SHOULD AVOID REINSTATING THE COUNTRY QUOTA SYSTEM, CHOOSING OTHER MEANS TO SUPPORT THE U.S. SUGAR INDUSTRY TO THE EXTENT THAT MARKET FORCES CREATE PRESSURES FOR PHILIPPINE PLANTERS TO GET OUT OF SUGAR CROPPING, THEY SHOULD BE WELCOMED,

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PAGE 03 MANILA 05649 03 OF 05 151715Z

PROVIDED VIABLE ALTERNATIVES ARE PRESENTED.

16. IN 1970, 80 PERCENT OF ALL EXPORTS WENT TO JAPAN AND THE U.S.; BY 1976, THIS WAS REDUCED TO 58 PERCENT. WHERE POSSIBLE, THE U.S. SHOULD ENCOURAGE FURTHER

RP EFFORTS TO DIVERSIFY MARKETS, SUCH AS TO ASEAN AND THE OTHER OCED COUNTRIES.

PRIVATE CAPITAL FLOWS

17 THE WORLD BANK AND ADB HAVE PLAYED AN IMPORTANT ROLE IN FILLING THE PHILIPPINE EXTERNAL CAPITAL GAP IN RECENT YEARS. COMMERCIAL BANKS HAVE ALSO PLAYED A CRUCIAL ROLE IN MAKING FUNDS AVAILABLE FOR GENERAL PURPOSE LOANS AND PROJECT LOANS, NOT INCIDENTALLY, A CURRENTLY HIGH PHILIPPINE CREDIT-WORTHINESS RENDERS THE GOP UNENTHUSIASTIC FOR G-77 OR UNCTAD DEBT RELIEF SCHEMES. HOWEVER, WE ARE CURRENTLY GETTING VIBES FROM COMMERCIAL BANKS THAT THEY ARE APPROACHING AN

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PAGE 01 MANILA 05649 04 OF 05 151559Z  
ACTION EA-09

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C O N F I D E N T I A L SECTION 4 OF 5 MANILA 5649

STADIS//////////

UNCOMFORTABLE LEVEL OF EXPOSURE AND INTEND TO SLOW THE PACE OF LENDING. THIS COINCIDES WITH THE MISGIVINGS ON BANK EXPOSURE TO LDCS RECENTLY EXPRESSED BY ARTHUR BURNS. IT REMAINS TO BE SEEN, HOWEVER, WHETHER THIS IS A CYCLICAL PHENOMENON, AND WHETHER BANKS, IF THEY CONTINUE TO BE HIGHLY LIQUID, WILL WISH TO REFRAIN FROM FURTHER LENDING IN THE PHILIPPINES WHICH HAS BEEN HIGHLY PROFITABLE.

18. AMBITIOUS PHILIPPINE DEVELOPMENT PLANS FOR THE NEXT FEW YEARS IMPLY A CONTINUING CAPITAL GAP. IN OUR VIEW, WHILE EXTERNAL DEBT HAS INCREASED SHARPLY IN RECENT YEARS, ABILITY TO SERVICE THE DEBT APPEARS ADEQUATE AT THE PRESENT TIME. NEVERTHELESS, THE DEBT SERVICE PICTURE BEARS CLOSE WATCHING BY MEMBERS OF THE CONSULTATIVE GROUP. THE HEAVY INVOLVEMENT OF THE IMF, THROUGH

THE OIL FACILITY, COMPENSATORY FINANCING FACILITY, AND ESPECIALLY THE EXTENDED FUND FACILITY, PROVIDES ADDITIONAL BACKBONE TO GOP FINANCIAL MANAGERS, BACKBONE WHICH IS EXTREMELY USEFUL IN VIEW OF CHRONIC PRESSURES IN UNHEALTHY DIRECTIONS, SUCH AS OVEREXPANSION OF MONEY SUPPLY.

19. ONE POSSIBLE ALTERNATIVE TO DEBT IS EQUITY IN THE FORM OF FOREIGN DIRECT INVESTMENT. THIS HAS BEEN A  
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PAGE 02 MANILA 05649 04 OF 05 151559Z

RATHER DISAPPOINTING SOURCE OF CAPITAL FLOW INTO THE PHILIPPINES, IN SPITE OF SOME OBJECTIVELY FAVORABLE CONDITIONS; E.G. AN EDUCATED WORK FORCE, AMPLE NATURAL RESOURCES, LOW WAGE LEVELS, AND FREQUENT ASSURANCES FROM MARCOS ON DOWN THAT INVESTMENT IS WELCOME. REGARDLESS OF THESE ASSURANCES, A PHILIPPINE AMBIVALENCE TOWARD THE BENEFITS OF FOREIGN INVESTMENT REMAINS AND RESULTS IN A DEGREE OF UNCERTAINTY OVER THE INVESTMENT CLIMATE. HERE, SCOPE FOR USG ACTION IS LIMITED. BY EXTROLLING THE BENEFITS OF INVESTMENT WE ONLY INCREASE APPREHENSIONS THAT WE ARE SELLING A QUESTIONABLE COMMODITY. EVEN CALLING ATTENTION TO DEVELOPMENTS ANATHEMA TO FOREIGN INVESTORS HAS AN UNCERTAIN INFLUENCE. PERHAPS THE MOST WE CAN HOPE FOR IS A VERY GRADUAL STABILIZATION OF THE SITUATION.

20. A RELATED MATTER IS THE POSTURE TOWARD MULTINATIONALS. ATTITUDES RANGE FROM POSITIVE ON THE PART OF THOSE WHO SEE MNCS AS EFFICIENT MANAGEMENT MECHANISMS, TRAINING GROUNDS, AND VEHICLES FOR TECHNOLOGY TRANSFER; MIXED ON THE PART OF BUSINESSMEN WHO AT THE SAME TIME ADMIRE THEM AND FEAR THEIR COMPETITION; TO EMOTIONALLY NEGATIVE, ESPECIALLY ON THE PART OF THE YOUNGER AND MORE VOCAL, TO WHOM MULTINATIONALS WILL ALWAYS SEEM TO BE GETTING MORE THAN THEY GIVE.

21. ANOTHER DIFFICULTY FACED BY MNCS IS THAT THEY, IN COMMON WITH LOCAL FIRMS, OPERATE BEHIND HIGH TARIFF BARRIERS AND ARE THUS ILL-EQUIPPED TO DEVELOP EXPORT MARKETS. THEIR FAILURE TO EXPORT GALLS GOP TECHNOCRATS, WHO FAIL TO APPRECIATE THE ROLE PLAYED BY HIGH DUTIES ON IN PUTS TO THEIR FINAL PRODUCTS.

22. OUR ROLE WITH RESPECT TO MNCS IS AGAIN LIMITED, BUT TWO DIRECTIONS SEEM INDICATED: (A) ENCOURAGE RATIONALIZATION OF THE PHILIPPINE TARIFF STRUCTURE,  
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PAGE 03 MANILA 05649 04 OF 05 151559Z

SO THAT MNCS CAN FULLFILL THEIR LOGICAL FUNCTIONS IN EXPORT DEVELOPMENT; AND (B) SUPPORT INTERNATIONAL EFFORTS TO DEVELOP A CODE OF CONDUCT FOR MULTI-NATIONALS. PROGRESS IN IMPROVING THE CLIMATE WILL BE SLOW AT BEST.

ASEAN

23. WE HAVE NOW EMBARKED ON A RESPONSE TO THE INCREASED STATURE AND IMPORTANCE OF ASEAN IN THIS PART OF THE WORLD. OUR SUGGESTIONS FOR THE APPROPRIATE FRAMEWORK FOR THIS DIALOGUE HAVE BEEN DOCUMENTED ELSEWHERE. THE POTENTIAL FOR TURNING THIS INTO A USEFUL VEHICLE FOR ECONOMIC DISCUSSION AND COORDINATION SEEMS MODERATELY PROMISING, GIVEN THE IMPORTANCE THAT THE ASEAN COUNTRIES HAVE PLACED ON IT. THE ASEAN DIALOGUE MAY ALSO EVENTUALLY PRESENT OPPORTUNITIES FOR ECONOMY OF EFFORT ON OUR PART, TO THE EXTENT THAT WE CAN ENGAGE FIVE COUNTRIES IN ONE FORUM.

24. GIVEN ALL OF THIS, WE WOULD HOPE THAT THE

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PAGE 01 MANILA 05649 05 OF 05 151559Z  
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C O N F I D E N T I A L SECTION 5 OF 5 MANILA 5649

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DEPARTMENT COULD FREE UNDERSECRETARY COOPER FOR THE FIRST SESSION, BACKED UP BY ASSISTANT SECRETARY KATZ AND DEPUTY ASSISTANT SECRETARY HEGINBOTHAM. THIS IS OF COURSE CONTINGENT UPON ADEQUATE PREPARATION ON BOTH SIDES, AND IN THIS RESPECT WE SHOULD NOT HURRY A FIRST MEETING. LATE SUMMER OR EARLY AUTUMN WOULD SEEM

TO BE A REASONABLE PACE.

25. DIFFICULTIES SHOULD NOT BE MINIMIZED. SELF-INTEREST IS A POWERFUL IMPULSE FOR EACH OF THE FIVE MEMBERS, AND SOME APPARENT PROGRESS HAS ALREADY FOUNDERED ON THIS ROCK. COORDINATION HAS BEEN SLOW AND PAINFUL AMONG THE FIVE; IT WILL BE A SOURCE OF FRUSTRATION TO US.

CIVIL AVIATION

2. RECENT CIVIL AVIATION NEGOTIATIONS HAVE BEEN MARKED BY AN ABSENCE OF AMICABLE SETTLEMENT. MUCH OF THE BLAME IS OUR OWN. WITH RESPECT TO THE IMMEDIATE RP/US ISSUE, THE SOLUTION SEEMS CLEAR FROM HERE: GRANT PAL THE REQUESTED CARGO RIGHTS, WHEREUPON FLYING TIGER WILL BE GRANTED ITS REQUESTED EQUIPMENT CHANGE.

27. IN THE BROADER CONTEXT, WE SUGGEST THAT THE  
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PAGE 02 MANILA 05649 05 OF 05 151559Z

DEPARTMENT ASSERT ITSELF MORE POSITIVELY INTO THE CIVIL AIR NEGOTIATION PROCESS, TO INSURE THAT THERE IS CONSISTENCY IN OUR TREATMENT OF PREVIOUS AGREEMENTS AND UNDERSTANDINGS, AND THAT THE FOREIGN RELATIONS ASPECTS OF THE NEGOTIATIONS ARE ADEQUATELY CONSIDERED.  
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